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The Centre for WTO Studies was set up by the Department of Commerce, Government of India in 1999. The intent was to create an independent think tank with interest in trade in general and the WTO in particular. The Centre has been a part of the Indian Institute of Foreign Trade since November 2002. The Centre provides research and analytical support, and allied inputs to the Government for WTO and other trade negotiations. The Centre also has its own body of publications, and conducts outreach and capacity building programmes by organizing seminars, workshops, and subject specific meetings to disseminate its work, create awareness on recent trade topics and build consensus between stakeholders and policy makers.

Global trade: A message to India amidst protectionist policies of Donald Trump

Anil K Kanungo, Financial Express

November 8, 2018: With the hike in the US Federal Reserve's interest rate, most of the dollars invested in emerging and European markets have returned home. This deeply appreciates the significance of the dollar as hard currency and eventually makes the dollar pricier. To add to this woe of developing countries are the extreme protectionist and incoherent policies of US President Donald Trump, which are sending out confused signals to the world economy, as it was understood with the establishment of the World Trade Organisation (WTO) that performance of the global economy henceforth will be free and fair.

With a such situation in sight, India, like many other emerging markets such as Turkey and Argentina, has experienced serious fiscal issues such as current account deficit (CAD), rise in debt, inflation in fuel and market constraints for commercial transactions. The rupee has depreciated 13-14%, along with the currencies of other emerging economies like Brazil and South Africa, which witnessing fall in the range of 10-12%. Even Australian and Chinese currencies have experienced depreciations of 8% and 5%, respectively. This level of depreciation experienced by different economies suggests how investors perceive their different fundamental macroeconomic conditions, especially the level of their current account, fiscal deficits and policy outlooks. In effect, it suggests that the rising dollar raises questions about the capacity of emerging economies to service their dollar-denominated debts and the vulnerabilities this could expose their financial systems to.

Such hike in interest rate and restrictive policies of Trump are making conduct of global trade uncertain and unstable. What could be done to save the world trade from such uncertainty is an area of concern and needs to be examined.

Looking at the current situation, it is apparent that global uncertainty is raising its ugly head since Brexit, Trump's ascendancy, contagion effect of the EU crisis, and the withdrawal of the US from mega trading blocs such as the Trans-Pacific Partnership (TPP). Unpredictable and restrictive trade policies adopted by Trump to even out the trade deficit that currently the US is witnessing are proving to be an addendum in further uncertainty of the world trade. But he looks to be convinced that unfair trade is meted out to the US with the rise of China as an exporting hub, and such trade practices by China are completely non-transparent and manipulated through a systematic depreciation of the yuan. In response to such non-transparent policies of China, the US followed a 'tit for tat' policy by imposing tariffs on imported solar panels and washing machines, and then aluminium and steel.

Since March 2018, these trade skirmishes and conflicts are rising, without showing any signs of abating between the US and China. America's imposition of 25% tariffs on China's $55 billion exports to the US was further retaliated by China with same sized tariffs on the same amount of trade from the US. To take further revenge, the US escalated trade conflict by imposing 10% tariffs on $200 billion worth of China's exports to the US.

This conflict is having a significant effect on trade and investment flows across the world as both are huge trade players in the global economy. If such a situation persists, China will look for new markets and, therefore, can have destabilising trade relations with some of its established trade partners. This new arrangement and uncertainty will continue to influence trade and investment, as businesses evaluate how increased restrictions will indirectly affect their supply chains.

The worry is that the country which has been the harbinger of free trade for the last 80 years is turning out to be its greatest critique. The US is emerging as a big threat to a rules-based trading system, which was duly acknowledged by most of the countries to engage in trade.

The current fluid situation is neither giving any definite signals to the progress of trade nor about the intention of Trump. Is it 'America first' or is it that the rules of the trading game need to be changed? If it is America first, then Trump needs to make America completely self-reliant and independent of any country's existence, and make America grow economically and politically, not to have any negative impact on its well-being. Such a perspective could be megalomaniac as America itself meddles with other nations' internal politics and policies, such as in the Middle East, in South Asia and in Latin America, to make its own position secured and strong. After all, it's all globalisation and an interdependent world.

If it is about the rules of the game, then the WTO framework may be strengthened by firmly institutionalising the dispute settlement mechanism instead of doing away with it, as was recently mentioned by Trump. Secondly, opening of economies needs to continue, as this will establish global competitiveness of countries. Lastly, unilateral reforms may be encouraged, especially for countries like China to initiate, so that structural reforms in Chinese economy are done to demonstrate to the outside world about its competition policy, IPR, currency management, etc. This would convince the US and the world economy about the fairness in the Chinese system, which has been a bone of contention for some time now, and the world economy will be more stable.

India loses row over safeguard duty on hot-rolled steel at WTO

D. Ravi Kanth, Live Mint

Geneva, November 7, 2018: India lost a major trade dispute at the World Trade Organization (WTO) on Tuesday, after a dispute settlement panel largely upheld Japan's complaint that New Delhi's imposition of safeguard duty on imports of hot-rolled steel flat products during September 2015 and March 2018 violated core global trade rules.

A three-member panel ruled that the safeguard duties imposed by India at different periods during 2015 and 2018 are inconsistent with core provisions of the WTO's Safeguards Agreement.

Though WTO members are entitled to impose safeguard duties to curb unforeseen surges in imports that cause material injury to their domestic industries, they must demonstrate with hard evidence that it is a sudden and sustained spike in imports causing injury to its domestic industry. Moreover, members must strictly adhere to rules during investigations and subsequent imposition of safeguard duties.

Over the years, there have been repeated criticisms by WTO members against the manner in which the office of the director general of the safeguards in India pursued investigations based on complaints made by the domestic industry.

Japan launched the dispute settlement proceedings against India last year challenging the "definitive" safeguard duties imposed on imports of hot-rolled steel flat products by the revenue department of the Indian finance ministry during September 2015 and March 2018.

It argued that the definitive safeguard duties of 20% ad valorem minus anti-dumping duty imposed by the Indian revenue department from 14 September 2015 to 13 September 2016, 18% ad valorem from 14 September 2016 to 13 March 2017, 15% from 14 March 2017 to 13 September 2017, and 10% ad valorem from 14 September and 13 March 2018, are inconsistent with several core provisions of the WTO's Safeguards Agreement.

Japan said India's definitive safeguard measures violated several provisions of the World Trade Organization's Agreement on Safeguards. Tokyo had maintained that the Indian measures also violated the most-favoured-nation agreement and the rules on quantitative restrictions. Several countries, such as the US, Australia, China, the EU, Indonesia, Kazakhstan, South Korea, and Russia, joined as third parties in the dispute.

In its ruling, the panel said India's safeguard duties are inconsistent with several core rules of the global trade as they failed to "demonstrate that the unforeseen developments and the effect of GATT (General Agreement on Tariffs and Trade) obligations resulted in an increase in imports" of the steel products. India also violated several other provisions of the Safeguards Agreement, according to the panel.

The panel, however, rejected few claims of Japan's complaint. India can appeal the panel ruling before the appellate body. Otherwise, the ruling will be adopted by the dispute settlement body within 20 to 60 days of circulation.

US withdraws GSP benefits of $70 million as India defers retaliation

Asit Ranjan Mishra, Live Mint

New Delhi, November 02, 2018: The US government withdrew GSP (Generalized System of Preferences) benefits to India worth $70 million on as many as 50 items effective from Thursday, on a day the Indian government further deferred by 45 days tit-for-tat retaliatory tariffs against 29 American products to counter the US move to unilaterally raise import duties on Indian steel and aluminium products.

Indian officials said the withdrawal of benefits is part of the 94 products on which the US has revoked GSP benefits for all countries and is not a major portion of India's $5.6 billion exports through duty-free entry of 1,937 products to the US under GSP.

"This will not affect the ongoing negotiations between the two countries for a trade package," a commerce ministry official said under condition of anonymity.

US President Donald Trump issued a presidential proclamation on Tuesday, leading to the removal of these products from the privilege beginning 1 November. These are products that have gained competitiveness as their imports under GSP are more than 50% of the total import of the product by the US.

Trade relationships between India and the US have soured under the current US administration, with Trump unilaterally raising tariffs on steel and aluminium imports from India and challenging its export subsidy regime at the **World Trade Organization** (WTO). India has also dragged the US to the WTO on higher steel and aluminium tariffs and has threatened to impose retaliatory tariffs worth $240 million on US imports.

India on 20 June notified that it will raise tariffs on 29 US products, including almonds, apples and phosphoric acid, worth $10.6 billion imports in retaliation to the steel and aluminium tariff hikes by the US. India did not impose the tariffs immediately, unlike other major trading parters of the US as the two countries were engaged in bilateral negotiations to finalize a trade package. The duty hikes were to come into effect on 4 August, but India yet again deferred implementation by 45 days till 18 September. It had further extended the deadline by another 45 days to 2 November. On Thursday, the finance ministry deferred it till 17th December. The United States Trade Representative in April announced that it is reviewing the GSP eligibility of India, along with Indonesia and Kazakhstan, after the US dairy industry and the US medical device industry requested a review of India's GSP benefits, given India's alleged trade barriers affecting US exports in these sectors.

The Trump administration has been accusing India of unfair trade practices and has challenged most of its export subsidies at the WTO. It has also not granted India an exemption on unilateral hike in steel and aluminium tariffs, unlike to its other strategic allies.

On Friday, the US treasury department added India to the currency practices watch list saying New Delhi increased its purchase of foreign exchange by $56 billion in 2017 which does not appear necessary given its already robust foreign exchange reserves.

Pressure mounts on India over tariffs on ICT items

D. Ravi Kant, Live Mint

Geneva, November 5, 2018: The US and China, among others, are expected to object at the World Trade Organization (WTO) to New Delhi's customs duties on information and communications technology (ICT) products, particularly mobile phones and other gadgets, on the grounds that India is not adhering to its bound tariff commitments.

In a 2 November announcement, the US, European Union (EU), China, Japan, Canada, and Norway indicated their intention to raise concern about India's "customs duties on ICT (information and communications technology) products" at the WTO.

The six countries are expected to challenge India to clarify on 12 November whether it is adhering to its bound/scheduled tariff commitments on ICT products, according to the agenda reviewed by *Mint.*

The increase in customs duties up to 20% from 15% on high-end mobile phones and other items, including smart watches which will attract duties up to 20% from 10% last year, and subsequent restrictive measures imposed on ICT products following the sudden spike in trade and current account deficits are said to be inconsistent with India's scheduled commitments in the Information Technology Agreement (ITA) that came into force on 1 July 1997, said a trade diplomat from a major IT exporting country, who asked not to be named.

India, which is a signatory to the ITA in 1996, is required to eliminate tariffs on a range of products, including mobile phones. But the imposition of tariffs on IT products, including mobile telephones, during the recent Union budget has come under intense scrutiny at WTO's committee on trade in goods and the committee on ITA.

Significantly, the US and China, which are fighting a trade war on alleged theft of intellectual property by Chinese semiconductor companies and imposition of forced transfer of technologies on American patent holders—closed ranks on India's customs duties on ICT products, said an analyst, who asked not to be named.

It remains to be seen whether the sponsors will raise a trade dispute following the Council for Trade in Goods (CTG) meeting.

India had already come under pressure at the previous WTO goods council meetings over the customs duties on smartphones, base stations, printer ink cartridges and other ICT products. The customs duties on IT products, they said, are inconsistent with the commitments India undertook to eliminate tariffs in the ITA.

In the past, the EU had said that India is bound by a zero percent duty in its GATT (General Agreement on Tariffs and Trade) commitments. The EU had alleged that India's tariff on two additional ICT products—digital still video cameras, and other electronic integrated circuits (EICs)— were not in conformity with its scheduled commitments for zero percent tariff.

The US had also pointed out apparent inconsistencies in India's tariff structure on IT products. Washington sought to know how India can increase import duties on mobile phones against its scheduled binding trade commitments. Japan had questioned India's justification that the purported items were not covered in the ITA saying India's measures were inconsistent with tariff classification.

In response, India had explained that the IT goods in question do not fall under ITA. It had all along maintained that IT and telecom technologies have evolved with new applications and equipment which were neither existent nor even conceived at the time of signing the ITA-I in December 1996, at the WTO's first trade ministerial meeting in Singapore.

Therefore, India argued, the new IT products including the latest Apple phones and other IT products do not strictly fall under the scope of ITA-I agreement. India maintained it is not undertaking any fresh commitments under ITA-2 agreement that came into force more than two years ago.

Meanwhile, India is also coming under pressure on its sugar subsidies. Australia and the EU have raised the issue to be discussed at the same CTG meeting on 12 November.

India mulls anti-dumping duty on Chinese chemical to guard domestic firms

Live Mint

New Delhi, November 01, 2018:   India may impose anti-dumping duty of up to $207.72 per tonne for a period of five years on a Chinese chemical used in the detergent industry to guard domestic manufacturers from cheap imports from the neighbouring country.

The commerce ministry's investigation arm Directorate General of Trade Remedies (DGTR), after concluding its probe, has recommended the duty on imports of 'Zeolite 4A (Detergent Grade)' imported from China.

"The authority recommends imposition of anti-dumping duty for a period of five years, so as to address the injury to the domestic industry," the DGTR said in a notification.

In its probe, the directorate has concluded that the dumping of this chemical has impacted the domestic industry.

The duty recommended was in the range of $163.9 per tonne to $207.72 per tonne.

The final call to impose the duty would be taken by the Finance Ministry.

The imports increased to 31,809 tonnes during the period of investigation, which was April 2016 to June 2017 (15 months). It was 24,929 tonne in 2013-14.

Gujarat Credo Mineral Industries and Chemicals India had filed an application for the investigation.

Countries carry out anti-dumping probe to determine whether their domestic industries have been hurt because of a surge in below-cost imports.

As a counter measure, they impose duties under the multilateral regime of World Trade organisation (WTO).

The duty is also aimed at ensuring fair trading practises and creating a level-playing field for domestic producers with regard to foreign producers and exporters.

India has already imposed anti-dumping duty on several products to check cheap imports from countries including China, with which India has a major concern of widening trade deficit.

The deficit has increased to $63.12 billion in 2017-18 from $51.1 billion in the previous fiscal.

Trade Wars: Paulson Warns of `Economic Iron Curtain' Between U.S., China

Financial Express

November 7, 2018: Former U.S. Treasury Secretary Hank Paulson warned of an "Economic Iron Curtain" dividing the world if the U.S. and China fail to resolve strategic differences.

Paulson explained his reasons for the current conflict and shared a path forward to avoid a "long winter" between the world's biggest economies in the text of a speech delivered at Bloomberg's New Economy Forum in Singapore on Wednesday. The New Economy Forum is being organized by Bloomberg Media Group, a division of Bloomberg LP, the parent company of Bloomberg News.

How Did We Get Here?

Paulson argued the U.S. and China have diverging interests in critical areas that go beyond trade. Even if the two sides reach a deal on trade, he said, the underlying tensions will still persist due to deeper issues. A consensus has emerged in the U.S. that engagement has failed to alter Chinese behavior. Some 17 years after China entered the WTO, it still has not opened its economy to foreign competition in many areas — prompting even the American business community in China to call for confrontation. Paulson argued that China's failure to open up is more to blame than confrontational attitudes in the U.S., which predated Trump. Major problems include: The Communist Party commands all Private business must support the strategic goals of the state Foreign technology is "being reworked so that foreign technologies become Chinese technologies through an indigenization process" that many CEOs find "grossly unfair." China's "Digital Silk Road" — an initiative to export Beijing's standards for cyber-governance — are further driving confrontation with the U.S.

What are the Risks?

More people in both the U.S. and China are advocating "policies that could forcibly de-integrate the two countries." Some in U.S. are advocating a "Cold War-style technology denial regime" as China looks to set its own standards and pursue self-reliance. That raises "the prospect of an Economic Iron Curtain— one that throws up new walls on each side and unmakes the global economy, as we have known it." In trying to isolate China, the U.S. risks isolating itself. Companies may look to base themselves in countries that are less hostile to China, instead of the U.S. U.S. actions against China risk setting up a new round of conflict with partners the U.S. needs to alter Chinese behavior.

What is the Way Forward?

China must allow foreign firms to compete on a level playing field, the market should drive key decisions, and Beijing should do more to protect intellectual property. It should also: Do no harm — for instance, come up with rules to prevent potential collisions at sea with American warships. Work constructively with U.S. allies and partners. Be bold — open the economy, have confidence Chinese companies can compete. End policies that directly or indirectly compel technology transfer Work with the U.S. on top strategic priorities, including North Korea The U.S. should: Dial down the rhetoric — "China does not pose an existential threat to American civilization." Enlist partners — Fix the WTO and reconsider joining the Trans-Pacific Partnership to shape the environment in which Beijing operates. Negotiate with China with clear objectives. Invest in America — the economy, military, education, science, engineering and alliances.

Trade Wars: Developing countries must put pressure on the US not to abandon the multilateral trading system

Geethanjali Nataraj & Dipayan Pal**,** Financial Express

November 3, 2018: US President Donald Trump has taken us into a global trade war. The most recent salvo in this trade war is Trump's decision to impose a steep 25% tariff on $34 billion of 818 Chinese imports (including machinery and components like semiconductors) to the US. A tax on another $16 billion worth of goods is in the process.
China immediately imposed retaliatory tariffs on 545 products (including soybeans, other agricultural products and automobiles), declaring that "the US has begun a trade war without historical precedent." This also obscures a more important source of conflict—China's desire to someday establish the yuan (renminbi) as the global reserve currency, on a par with the American dollar.

This trade conflict is one of the aspects of aggravating strategic competition between the US and China. The US wants to maintain its monopoly and influence in the international order, whereas China is determined not to accept the second place and to achieve parity. This problem has been termed the Thucydides Trap, named after the conflict in ancient Greece between Sparta (the incumbent superpower) and Athens (the rising superpower) that led to the Peloponnesian War. The tariff threat would, in no way, hamper China's primacy as a global power. However, it would delay the rise of China in the global order to a considerable extent.
Although the immediate situation is not alarming, there is a fear that the tit-for-tat tariffs economics might get escalated into a full-blown trade conflict. This trade war also carries a major risk of escalation that could unsettle financial markets, depress spending, weaken investment, and slow down the global economy.
Beijing has accused the Washington of triggering the "largest-scale trade war." This can also be considered to be the biggest tariff imposition by the US since the Smoot-Hawley Tariff legislation, which exacerbated the Great Depression and led to the downfall of global trade—which declined by a whopping 66% between 1929 and 1934.

The Trump administration has been impulsive in provoking trade conflicts. There are two aspects to Trump's trade-war policy. One is the action against the European Union (EU), Canada and Mexico (driven by right-wing nationalist politics); and the other is the stance towards China. Trump thinks that a protectionist approach to trade will increase jobs in the US and minimise the trade deficit, but he is mistaken. A trade war might not only trigger a recession in the global economy, but could even plunge the US economy into recession. When the EU retaliated against the US's tariffs with tariffs of its own, Harley-Davidson (the iconic American motorcycle manufacturer) decided to move some of its production facilities overseas, demonstrating how protectionism could eventually be a boomerang.

The notable characteristics of the trading system (established after the Second World War) have been reductions in trade barriers and the adoption of jointly agreed-upon rules, now enforced through the World Trade Organisation (WTO). The US has led the way in this regard, but now they are themselves giving up on WTO rules. Other countries may also do the same. The credibility and efficacy of the multilateral system is constantly being questioned by countries resorting to unilateral and protectionist tendencies. Most countries have resorted to the second-best option in international trade, i.e. signing regional trade agreements and mega trade agreements with like-minded countries.

The US is focusing on bilateral deals with most countries and is renegotiating the North American Free Trade Agreement (NAFTA), because, according to President Trump, NAFTA has led to heavy job losses in traditionally heavy manufacturing states such as Michigan and resulted in stagnant wage rates. Further, the US has also questioned the working of the dispute settlement mechanism of the WTO, stating that it will ignore those WTO rulings that are not in the favour of the US, amid concerns that dispute settlement infringes on American sovereignty. The US is likely to face retaliation from its trading partners if it does not adhere to the dispute settlement mechanism. In fact, without the dispute settlement mechanism, the US is most likely to follow unilateral enforcement outside the WTO—for instance, the Section 301 and recently the tariff war with China. This approach may not be effective in the medium- and long-run, escalating trade tensions and trade wars between the US and the rest of the world.

However, there has been a stark shift in the American strategy in the last few weeks. The trade war, apparently, has moved beyond just trade and tariffs, as the US administration is weighing other non-tariff options such as sanctions on the Chinese military and an increase in naval exercises around China's territorial waters, and also rise in anti-China rhetoric including Chinese interference in US presidential elections. Midterm elections are scheduled to be held in the US on November 6, and keeping in mind voter sentiments, it appears that the US has temporarily suspended preparing to impose further tariffs on all Chinese imports. Increasing tariffs again would result in high prices for consumer goods, including cell phones, apparel and toys, which, so far, had been spared to avoid consumers feeling the pinch.

It's becoming increasingly difficult to gauge the American strategy in pursuing trade wars, non-tariff sanctions, etc. What will be the end-result of this and for how long will this go on is anybody's guess. However, there is no doubt that the US is likely to become more and more isolated, and will be forced to rethink its strategy. For the first time, the World Economic Outlook (WEO) of the International Monetary Fund (IMF) has projected lower trade growth vis-a-vis global growth, and this could be a disaster for the global economy. The US is confidently going ahead and taking the steps that it is, because its economy has been performing well and it's not going to be hurt by the tariff surge by China. On the contrary, China's growth rate will be largely hit as it exports four times more than the US, and surely that could pose a challenge to the Chinese economy. The US has dumped the G20 and also the WTO, and is purely acting in the interest of its own economy.

It's important that the multilateral system is put back on track. Towards that, the developing world will need to put consistent pressure on the US not to abandon the multilateral trading system, which is the only fair forum for settling disputes among nations. Recently, China has been making efforts to deepen trade ties with India to build a just international order. But, in the medium and long term, one can only hope that good sense prevails and both the US and China eventually negotiate a deal to settle this issue, lest this trade war goes on to lay the seeds of a third world war, spelling disaster for the global economy.

Singapore assessing growth forecast as trade war risks loom

Michelle Jamrisko & Joyce Koh, Bloomberg, Live Mint

Singapore, November 6, 2018: Singapore may need to review its economic growth projections for next year as the US-China trade war increases uncertainty and crimps business investment, the city state's finance minister said. "In the short run, the impact is not fully felt yet," with Singapore retaining its GDP growth forecast for this year at 2.5% to 3.5%, Heng Swee Keat said in an interview Friday with Bloomberg Television's Haslinda Amin. "But any trade tension that sets back globalization will affect everyone, including the countries that are directly involved, but also collateral damage right across all economies."

Heng made the comments ahead of this week's Bloomberg New Economy Forum in Singapore, where policymakers and business executives will gather to discuss the changing dynamics in the world as economic influence shifts from the West to the East.

In Southeast Asia, nations are grappling with a potent storm of economic challenges: a high-stakes tariff battle between the US and China, global monetary policy tightening, a strengthening dollar and the risk of capital outflows. Singapore, an international trading hub that benefits from trade flows and the movement of goods between the region's manufacturing centres, the US and Europe, has already seen exports ease this year.

Uncertain outlook

Asked if Singapore might have to reassess its yet-to-be announced projections for 2019, Heng said: "Indeed", pointing to the International Monetary Fund's downgrade of its global forecast. Economic agencies and the central bank have been in close touch with businesses and are looking at whether the projections need to be "changed or revised," he said.

"We are beginning to see the effects of this in terms of this increased uncertainty, and reduced investment by businesses," he said. While 2018 growth is likely to come in at the upper half of the projection, "as to next year, it depends on how the situation continues to develop in the next few months because many of these investment decisions that ought to be taken will be affected".

Beyond 2019, a prolonged US-China trade war would severely disrupt the global supply chain, throwing up long-term growth challenges for countries as the "global production frontier" is diminished, Heng said.

Trade risks

The 57-year-old minister is one of several men considered to be a leading candidate to be Singapore's next prime minister. He has held the post of finance minister since 2015, and previously served as education minister and managing director of the Monetary Authority of Singapore.

Heng addressed other issues related to Singapore's economy in the interview, the highlights of which are below. The Bloomberg New Economy Forum is organized by Bloomberg Media Group, a division of Bloomberg LP, the parent company of Bloomberg News.

Asia's strengths

"Asia's structural drivers from growth are strong. Look at the population, the rising middle class, the embrace of multi-lateralization and free trade, and also increasingly the efforts in technology and innovation."

"What we hope to do is to position Singapore as a global Asian node of technology, innovation and enterprise", with Singapore deriving a competitive edge from its connectivity to the global economy and Asia, its adherence to international standards and rule of law, and its openness. "Our protection of intellectual property and the trust that people have in Singapore as a business center is so important."

Supply chains

"This trade dispute is causing concern among businesses, and they are all looking at how they can build resilience into their supply chain. In the short run, there will be some of those immediate changes" and "the natural evolution of the supply chain is now facing a severe shock because of this change".

“Will it be a plus for the global economy in the long run? Not if the trade conflict remains prolonged, because what it does mean is you’re moving away from what ought to be the production frontier for the global economy”, and specialization that “ought to take place and ought to evolve as economic conditions change may be diverted in some ways”.

“The countries in the region will have to make the best out of this untidy situation” by accelerating their development of infrastructure, connectivity and other areas. “Otherwise the supply chain becomes very inefficient, and every one of us is going to pay for it.”

Trade blocs

The world breaking into regional trade blocs “can be harmful but if we can use a bilateral agreement, regional agreements as building blocks towards global agreements, and to build trust and confidence in the system and to give time for economies to make structural adjustments, then I think we must continue and that can pave the way for multilateral agreements”.

“I think it will serve all countries best if we have agreement at the level of the WTO. The WTO remains a very important institution for us to defend, for us to upkeep, because I think a rules-based global multilateral system’ serves the interests of countries better.

Singapore budget

“Our priority areas remain for economic restructuring”, with innovation being a key part of policy makers’ work. “The other big area is looking at infrastructure development”, with urbanization being a major trend in Asia.

Tax structure

“I had many, many discussions already with my staff on the outline of what we are going to announce, but not just for this year but for a number of years, on the changes that we need to make across in our spending pattern, in our revenue pattern. We believe that we should not be planning on the basis of just year to year, but we need to take a longer-term view of some of our needs.”

Taxing labour less and capital more “is one of the options that we are looking at” but “we have a range of possible instruments”. Consumption tax will still be a major part of the tax base over the next five-year horizon, he said.

Opinion | The need customs duty rationalization

Abhishek A Rastogi, Live Mint

November 8, 2018: A second round of hikes in import duties was announced recently, this time on telecom equipment. This is a move to not only curb imports but also rein in a rising current account deficit (CAD), aiming to check the rupee's weakness against the dollar. The Indian rupee has been one of the worst performing currencies among the emerging markets in this calendar year. The hike in customs duties is seen as too little to trigger any reasonable correction in CAD.

The need of the hour is to take bold decisions that will not only help cushion the rupee but also usher in a sustained reduction in India's import dependency.

Imports are a necessity when a nation doesn't have the wherewithal to produce goods locally. However, it is inefficient utilization of resources when a nation allows a copious flow of imports even when the domestic industry has the necessary capacity and expertise to manufacture the same products.

A key area that has been efficiently manufacturing and has the necessary scale to not just meet domestic demand but even exports is metals and minerals. However, the lopsided duty structures and free trade agreements (FTA) have translated into a raw deal for the domestic industry.

Supplies of various materials have been facing persistent dumping for several years now. The government should urgently look into the misuse of the FTAs. There have been instances where goods are routed through countries with which India has signed such agreements.

For instance, coco powder is routed through Singapore, Indonesia and Malaysia and the direct/indirect value addition ratios are not met in various cases. It is easy to obtain approvals in these countries and India suffers loss of customs duty. Strict provisions for Indian importers are necessary to curb such duty evasions.

In the oil and gas sector, where India currently meets more than 80% of its demand through imports, the country aims to reduce imports by 10% by 2022, which is equal to savings of roughly $10 billion annually. Given India's massive untapped hydrocarbon reserves, the nation has the potential to easily enhance domestic production of oil and gas to cut import dependency by more than 10% in the forseeable future. A correction in the duty structure, within the World Trade Organization (WTO) guidelines, and liberalization of the mining sector is sufficient to boost domestic manufacturing and significantly cut down India's import bill.

Such is the inherent strength of India's resources sector that right policies can boost domestic manufacturing and cut down India's import bill by as much as $20 billion per annum. For example, despite having the fifth largest coal reserves in the world, India is likely to import 164 million tonne in the current calendar year as production inefficiencies and transport bottlenecks force companies to look overseas.

Iron ore is another example. India produces 210 million tonnes of iron ore every year, which is far more than what it consumes. While the mining ban in Goa is under legal resolution, more than 150 million tonnes of iron ore are lying idle in Odisha, Chhattisgarh and other parts of the country. The local prices of iron ore are 30 to 40% cheaper than imports. Some of the largest steel companies continue to import iron ore, putting pressure on domestic miners. This, according to data available, drains out foreign exchange worth more than $650 million, plus an additional loss of royalty of about $60 million to state government.

Similarly, import of refined copper and scrap have caused a foreign exchange outgo of a whopping $2.1 billion. About 38% imports for domestic consumption results from various FTAs.

Further, the case of aluminium imports is interesting. Data shows that India's primary aluminium production capacity of 4.1 million tons per annum is 1.25 times its consumption. Yet, imports account for nearly 60% of consumption. India imports about 1.1 million tons of scrap because the import duty on aluminium scrap is merely 2.5%. Experts fear that with the ongoing trade war between the US and China, aluminium meant for the US will now find its way into India, worsening the situation.

The story of zinc is no different. While domestic producers can meet the industry's demand, India imported 185,000 tonnes of refined zinc in 2017-18. Of this, 70% came from South Korea because of an ill-conceived comprehensive economic partnership agreement (CEPA). It will be an excellent measure to change the existing import terms under the CEPA agreement with South Korea, which will result in further reduction of the CAD.

A well-thought-out strategy that benefits the nation in the long run by bringing down dependency on non-essential imports will not only save foreign exchange but also add to stability of key macro-economic numbers.

Further, the misuse of FTAs for various identified imports should be looked into very seriously with heavy penalties on importers who deliberately misuse these agreements. As a corollary, rationalization of customs duty and prevention of FTA misuse will give a fillip to domestic output, boost the ancillary eco-system and lead to employment generation. The time to shift gears is right now.

India dismisses US' notification that it has breached cotton MPS

D. Ravi Kanth, November 11, 2018

Geneva, Live Mint: India has dismissed a counter notification issued by the US alleging New Delhi's market price support (MPS) for cotton breached the permitted levels of trade-distorting domestic support in the past seven years at the World Trade Organization (WTO), people familiar with the development said.

The US has alleged that India paid trade-distorting subsidies to its cotton farmers well in excess of the limit of 10% for developing countries. "It appears that India provides MPS for cotton vastly in excess of what it has reported to the WTO," the US said in its nine-page notification that will be made public on 12 November.

Washington's latest counter notification, which is the second of its kind after a similar notification on India's rice and wheat several months ago, says: "India's apparent MPS for cotton appears to have been between 53% and 81% of the value of production in each of the covered years (2010-2017)."

"India appears to be providing signification MPS both in terms of absolute value and as a percentage of the value of production (VoP), for cotton." The US has questioned India's notification on cotton, which was submitted a couple of months ago saying it has "dramatically" under-reported. "For example, India's notification for MY(marketing year)2015/16 showed a value of support, converted from US dollars, of ₹1,176.48 million for cotton…By comparison, the United States estimates that India's MPS was ₹504.150 million for MY2015/16 for cotton."

The market price support for agricultural commodities is calculated as the difference between the applied administered price and external reference price prevailing in 1986-88 multiplied by eligible production.

India had all along opposed the methodology adopted for arriving at the MPS. India, along with more than 45 countries of the G-33 farm coalition, had demanded that the **MPS** must be calculated by using an external reference price of a recent period instead of 1986-88, which was built into the equation following the Uruguay Round of trade negotiations.

But the US and other erstwhile farm trade-distorting countries such as the European Union, Japan, Norway and Switzerland, vehemently blocked India's efforts for changing the methodology.

"The US wants to paint India with a dark brush as a culprit for global distortions in cotton trade in which the US and the four poor West African countries—Benin, Burkina Faso, Mali, and Chad—are the main victims," said a trade envoy, requesting anonymity.

A senior Indian trade official, also requesting anonymity, said: "The US' counter notification is a cut-and-paste job of what Washington previously did on India's rice and wheat and it is based on a flawed and erroneous methodology." India will categorically dismiss the notification on cotton when it comes up for consideration at the special negotiating session, the official added.

Moreover, the US has used the rupee for calculating the market price support, while India calculates in dollar terms, which makes a tremendous difference, said an analyst on global farm trade. Also, the US was wrong to use total production for the calculation of MPS as opposed to India's calculation based on the procured production. Further, the Cotton Corporation of India does not procure more than 1% of the total production of cotton, the analyst said.

In short, the US wants to pit India against poor West African countries who are seeking substantial reduction in cotton subsidies provided by the US, he added. "Incidentally, the US was already condemned by the WTO's appellate body for distorting global trade in cotton."

India's safeguard duty move on steel goods inconsistent with certain global trade norms: WTO panel

The Economic Times

November 7, 2018: Japan, which is the second largest steel producer in the world, had alleged that duties imposed on steel imports by India violated WTO trade norms.

The WTO's dispute panel has said India's move to impose safeguard import duty on some iron and steel products was inconsistent with certain global trade norms.

The ruling comes in the backdrop of Japan dragging India to the World Trade Organization (WTO) against certain measures taken by New Delhi on imports of iron and steel products. The case was filed by Japan in December 2017.

"...having found that India acted inconsistently with certain provisions of the GATT 1994 and the Agreement in Safeguards, we recommend that, to the extent that the measure continues to have any effects, India bring it into conformity with its obligations under those agreements," the panel said in its ruling.

The duty imposed by India already ended in March this year.

As India and Japan failed to resolve the issue in the bilateral consultation process, the WTO had set up the dispute resolution panel earlier this year.

Japan, which is the second largest steel producer in the world, had alleged that duties imposed on steel imports by India violated WTO trade norms.

In September 2015, India imposed provisional safeguard duty of 20 per cent on import of certain categories of steel with a view to protect domestic producers. Later, it was reduced and extended till March this year.

The dispute assumes significance as India and Japan implemented a comprehensive free trade agreement in 2011. It gave easy access to Japan in the Indian steel market.

The bilateral trade between the countries stood at USD 15.7 billion in 2017-18. Trade is highly in favour of Japan as the trade deficit stood at about USD 11 billion in that fiscal.

India to dispute US' claim of under-reporting cotton subsidies

Kirtika Suneja, The Economic Times

November 15, 2018: In its latest counter to India's subsidies, the US said: "India's notifications for the years at issue appear to dramatically under-report the value of India's MPS for cotton".

India will dispute US' findings that claim New Delhi paid trade-distorting subsidies in the last seven years to its cotton farmers in excess of 10% permitted for developing countries. The US has alleged that India provides market price support or MPS for cotton "vastly in excess of what it has reported to the World Trade Organization (WTO)" and it ranged from 53-81% of the value of production from 2010-11to 2016-17.

"We will dispute these findings strongly," said an official in the know of the details.

This is the second counter-notification by the US attacking India's subsidy numbers. In May, the Trump administration had challenged India on the basis of support given to wheat and rice.

However, the latest salvo is being seen in the light of the US targeting the cotton subsidies given by African countries to their poor farmers "The US' cotton subsidies have devastated African countries and hence, it is trying to shift the focus on us," said another official.

In its latest counter to India’s subsidies, the US said: “India's notifications for the years at issue appear to dramatically under-report the value of India's MPS for cotton”.

For example, India's notification for marketing year (MY) 2015-16 showed a value of support, converted from US dollars, of Rs 117.64 crore for cotton. By comparison, the US estimates that India’s MPS was Rs 50,415 crore for cotton in that year.

“The dollar-rupee difference is there and the US has assumed that the entire production of cotton is eligible for subsidies, which is incorrect,” the second official added.

“The US wants India to report in rupee terms while India submits dollar-denominated numbers to the WTO. Depreciation of the rupee has helped us but the WTO does not mandate any particular currency,” said a Delhi-based expert on WTO issues.

The WTO Agreement on Agriculture defines subsidies on the total value of agriculture production while the US has challenged India on the basis of support given to individual products. Similarly, the agreement doesn’t specify the currency in which countries have to report their subsidy dole out.

How RCEP negotiations hinge on a single phrase

The Economic Times

November 12, 2018: The RCEP is actually a trade agreement that covers almost all of the Indo-Pacific, a key focus of Indian foreign policy at this point.

A major Asian trading agreement scheduled to be completed by the year-end could be hanging on a single phrase, as India treads a fine line between an external pressure to complete negotiations and internal desire to continue talks until next year.

As the East Asia summit nears this week, negotiations for the RCEP (Regional Comprehensive Economic Partnership) are going down to the wire. With the next ministerial scheduled for November 13, PM Modi, who will have to take the final decision on India’s negotiating stance, is involving himself more deeply, spending long hours with the Indian negotiators. Negotiators are holding last-minute discussions this weekend, working to a ministerial meeting on Monday, to be followed by the RCEP summit on Wednesday.

The most recent hiccup in the talks is the phrase “substantial conclusion”. In the previous round of discussions in September, the countries had agreed to announce that they would declare that they had reached a “substantial conclusion” while continuing to fine-tune the negotiations before reaching a final agreement by 2019.

During the talks in Auckland last week, it quickly became clear that in certain countries like Malaysia, the phrase “substantial conclusion” had legal implications, which required the government to make the agreement details public to Parliament and media. With elections due next year (in India, Indonesia, Thailand and Australia), the Modi government would like to ideally reveal the details after the polls, for fear of unintended consequences.

Sources said Modi had directed that India should strive to stay in the deal. The RCEP is actually a trade agreement that covers almost all of the Indo-Pacific, a key focus of Indian foreign policy at this point. In addition, opening up these markets for Indian services, and goods, is equally important. Many countries want India to be part of this deal as a way of balancing China’s outsized presence.

- The agreement: The Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement between 16 countries: ten of the Association of Southeast Asian Nations (ASEAN) and the six Asia-Pacific countries with which they have existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand).

- India’s stake: It covers almost all of Indo-Pacific, a key focus of Indian foreign policy and is in the sixth year of negotiations. India was initially fearful of letting the RCEP become a backdoor for Chinese entry into India but it has now evolved its position to believe it has a lot to gain from the agreement. Many countries want India to be part of this deal as a way of balancing China’s outsized presence. The next RCEP ministerial meeting is November 13.

- The phrase: The most recent hiccup in the talks is the phrase “substantial conclusion”. In the previous round of discussions in September, the countries had agreed to announce that they would declare that they had reached a “substantial conclusion” while continuing to finetune the negotiations before reaching a final agreement by 2019.

- Problem & solution: In certain countries like Malaysia, the phrase “substantial conclusion” has legal implications, which requires the government to make the agreement details public to Parliament and media. With elections due next year (in India and Australia), the government would like to ideally reveal the details after the polls, for fear of unintended consequences. India has proposed using the term “substantial progress” at the next meeting to describe the state of the negotiations.

India, other Asian countries benefited from opening up trade: Arvind Panagariya

The Indian Express

New Delhi, November 3, 2018: India and several other Asian countries have in the past defied the belief that protectionism is good for developing economies as these nations reaped benefits of opening up trade and lower tariffs, eminent economist Arvind Panagariya said Saturday.

Lower trade barriers help countries in achieving high growth rates and in reducing poverty, he said, adding that "we can casually link free trade to high per capita incomes".

"When a country opens up trade, (then) growth happens and it invariably reduces poverty…Asian tiger economies (Hong Kong, Singapore, South Korea and Taiwan), China, India and Vietnam reduced trade barriers and they benefited," he said at the launch of his new book 'Free Trade & Prosperity'.

Panagariya, who is currently a professor of Indian Political Economy at Columbia University, noted that due to rapid growth, countries like India and China were able to pull out millions of people out of poverty.

The economist, who was also the vice chairman of Niti Aayog, said that he expect institutions like WTO to survive, but some modification will happen in it.

On protectionism measures being adopted by some developed nations, he said despite of that trend, most part of the world remains open even today.

Panagariya observed that 50-60 years ago, there was a general consensus that free trade would be good for developed economies like the US, Japan and European countries and protectionism was beneficial for developing economies.

"Some countries defied that consensus. East Asian tiger economies opened up their economies in 1970s and grew rapidly and showed that free trade was even good for developing economies," he noted.

Panagariya pointed out that in 2002, India merchandise exports stood at USD 50 billion and it grew to USD 300 billion in 2011.

On the occasion, Niti Aayog CEO Amitabh Kant said India's exports to GDP ratio is 11 per cent, which is too low compare to other emerging economies.

“You can’t do exports without imports. If you put import barriers then you won’t be able to export,” Kant said.

Trade deficit rises to $17.13 bn

The Hindu

New Delhi, November 15, 2018: India’s merchandise trade deficit widened in October to $17.13 billion due in large part to a higher oil import bill, official data released on Thursday showed.

The trade deficit is wider than the $14.61 billion seen in October of last year and the $13.98 billion in September 2018.

Positive growth

“Exports in October 2018 were $26.98 billion, as compared to $22.89 billion in October 2017, exhibiting a positive growth of 17.86%,” a release said. “In rupee terms, exports were ₹1,98,634.84 crore in October 2018, as compared to ₹1,48,962.64 crore in October 2017, registering a positive growth of 33.35%.”

This growth in exports marks a rebound from the contraction of 2.15% seen in September in dollar terms.

The major commodities that saw stronger growth in exports compared with last year include engineering goods (8.87%), petroleum products (49.38%), gems and jewellery (5.48%), organic and inorganic chemicals (34.01%), and drugs and pharmaceuticals (12.83%).

“The October data shows that the exports are again back on double-digit growth trajectory during the on-going festive season,” said Ganesh Kumar Gupta, president of the Federation of Indian Export Organisations“The exports during the month is close to $27 billion, which re-affirms our assessment of reaching the new milestone of $350 billion in the current fiscal, the highest-ever exports figures during recent years braving all the odds.”

“Imports in October 2018 were $44.11 billion (₹3,24,774.78 crore), which was 17.62% higher in dollar terms and 33.07% higher in rupee terms over imports of $37.50 billion (₹2,44,064.20 crore) in October 2017,” the government said.

Oil imports in October 2018 were $14.21 billion, which was 52.64% higher in dollar terms compared with October last year and 30.2% higher than the oil imports of September 2018.